

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Charter Township of Lowell, Michigan	County Kent
Audit Date March 31, 2004	Opinion Date May 18, 2004	Date Accountant Report Submitted To State: September 16, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 333 Bridge Street, N.W., Suite 600	City Grand Rapids	State MI	ZIP 49504
Accountant Signature 			

Charter Township of Lowell Kent County, Michigan

**Financial Report
with Supplemental Information
March 31, 2004**

Charter Township of Lowell

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Plante & Moran, PLLC

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Independent Auditor's Report

To the Members of the Township Board
Charter Township of Lowell
Kent County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Lowell, Michigan as of and for the year ended March 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Lowell, Michigan as of March 31, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedule is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

A member of



A worldwide association of independent accounting firms

To the Members of the Township Board
Charter Township of Lowell
Kent County, Michigan

As described in Note 11, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2003. In adopting this statement, the financial statements now include government-wide full accrual financial statements and reorganized fund-based statements.

Plante & Moran, PLLC

May 18, 2004

Charter Township of Lowell

Statement of Net Assets March 31, 2004

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and investments (Note 3)	\$ 735,353	\$ 793,595	\$ 1,528,948
Receivables - Net (Note 4)	71,919	439,554	511,473
Internal balances	90,521	(90,521)	-
Restricted assets (Notes 3 and 8)	-	161,599	161,599
Capital assets - Net (Note 5)	1,539,288	2,140,848	3,680,136
Intangible assets - Net (Note 5)	43,020	-	43,020
Total assets	2,480,101	3,445,075	5,925,176
Liabilities			
Accounts payable	17,152	35,421	52,573
Accrued and other liabilities	14,724	1,359	16,083
Noncurrent liabilities (Note 7):			
Due within one year	-	77,877	77,877
Due in more than one year	-	754,789	754,789
Total liabilities	31,876	869,446	901,322
Net Assets			
Invested in capital assets - Net of related debt	1,582,308	1,308,182	2,890,490
Restricted:			
Cemetery perpetual care	12,034	-	12,034
Gypsy moth	106,165	-	106,165
Bond reserve	-	47,000	47,000
Unrestricted	747,718	1,220,447	1,968,165
Total net assets	<u>\$ 2,448,225</u>	<u>\$ 2,575,629</u>	<u>\$ 5,023,854</u>

Charter Township of Lowell

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions Capital Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 396,570	\$ 24,652	\$ 54,056 \$ 16,800
Public safety	65,372	-	-
Public works	50,849	12,300	-
Legislative	94	-	-
Recreation and culture	48,673	7,840	- 91,500
Total governmental activities	561,558	44,792	54,056 108,300
Business-type activities - Water and sewer	446,398	528,726	- -
Total primary government	<u>\$ 1,007,956</u>	<u>\$ 573,518</u>	<u>\$ 54,056</u> <u>\$ 108,300</u>

General revenues:

Property taxes
State-shared revenues
Unrestricted investment earnings
Franchise fees
Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - April 1, 2003 (Note 11)

Net Assets - March 31, 2004

Statement of Activities
Year Ended March 31, 2004

Net (Expense) Revenue and Changes in Net		
Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (301,062)	\$ -	\$ (301,062)
(65,372)	-	(65,372)
(38,549)	-	(38,549)
(94)	-	(94)
<u>50,667</u>	<u>-</u>	<u>50,667</u>
(354,410)	-	(354,410)
<u>-</u>	<u>82,328</u>	<u>82,328</u>
(354,410)	82,328	(272,082)
112,433	-	112,433
369,287	-	369,287
31,512	-	31,512
15,147	-	15,147
<u>1,576</u>	<u>27,480</u>	<u>29,056</u>
<u>529,955</u>	<u>27,480</u>	<u>557,435</u>
175,545	109,808	285,353
<u>2,272,680</u>	<u>2,465,821</u>	<u>4,738,501</u>
<u>\$ 2,448,225</u>	<u>\$ 2,575,629</u>	<u>\$ 5,023,854</u>

Charter Township of Lowell

Governmental Funds Balance Sheet March 31, 2004

	General Fund (Major Fund)	Other Nonmajor Governmental Funds - Capital Project Fund	Total Governmental Funds
Assets			
Cash and investments	\$ 693,132	\$ 42,221	\$ 735,353
Receivables - Net	51,954	-	51,954
Advances to Water Fund (Note 6)	90,521	-	90,521
Total assets	<u>\$ 835,607</u>	<u>\$ 42,221</u>	<u>\$ 877,828</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 15,784	\$ -	\$ 15,784
Accrued and other liabilities	160	-	160
Total liabilities	15,944	-	15,944
Fund Balances			
Reserved for:			
Long-term receivable	90,521	-	90,521
Cemetery perpetual care	12,034	-	12,034
Gypsy moth	106,165	-	106,165
Unreserved, reported in:			
General Fund	610,943	-	610,943
Capital Projects Funds	-	42,221	42,221
Total fund balances	<u>819,663</u>	<u>42,221</u>	<u>861,884</u>
Total liabilities and fund balances	<u>\$ 835,607</u>	<u>\$ 42,221</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	1,539,288
Intangible assets used in governmental activities are not financial resources and are not reported in the funds	43,020
Payables that are not due and payable in the current period and are not reported in the funds	(15,933)
Receivables are expected to be collected over several years and are not available to pay for year expenditures	19,966
Net assets of governmental activities	<u>\$ 2,448,225</u>

Charter Township of Lowell

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2004

	General Fund (Major Fund)	Other Nonmajor Governmental Funds - Capital Project Fund	Total Governmental Funds
Revenue			
Property taxes	\$ 112,433	\$ -	\$ 112,433
State sources	403,378	-	403,378
Local sources	16,800	-	16,800
Licenses and permits	24,058	-	24,058
Interest income	31,049	463	31,512
Cemeteries	1,100	-	1,100
Cable TV	15,147	-	15,147
Miscellaneous	112,709	-	112,709
Total revenue	716,674	463	717,137
Expenditures			
Current:			
General government	373,200	-	373,200
Public safety	81,305	-	81,305
Public works	49,005	-	49,005
Legislative	94	-	94
Recreation and culture	28,126	-	28,126
Capital outlay	157,275	-	157,275
Total expenditures	689,005	-	689,005
Excess of Revenue Over Expenditures	27,669	463	28,132
Fund Balances - Beginning of year	791,994	41,758	833,752
Fund Balances - End of year	<u>\$ 819,663</u>	<u>\$ 42,221</u>	<u>\$ 861,884</u>

Charter Township of Lowell

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ 28,132
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation. This is the amount by which capital outlay in the current period exceeds depreciation	113,904
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Governmental funds report expenditures made for intangible assets as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as amortization. This is the amount by which the asset exceeds amortization in the current period	13,543
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Revenue reported in the statement of activities that provides current financial resources and is not reported as revenue in the governmental funds	<u>19,966</u>
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Change in Net Assets of Governmental Activities	<u>\$ 175,545</u>
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Charter Township of Lowell

Proprietary Funds Statement of Net Assets March 31, 2004

	Enterprise		
	Water	Sewer	Total
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 398,017	\$ 395,578	\$ 793,595
Receivables - Net (Note 4)	285,182	154,372	439,554
Total current assets	683,199	549,950	1,233,149
Noncurrent assets:			
Restricted assets (Notes 3 and 8)	92,840	68,759	161,599
Capital assets (Note 5)	1,591,963	548,885	2,140,848
Total noncurrent assets	1,684,803	617,644	2,302,447
Total assets	2,368,002	1,167,594	3,535,596
Liabilities			
Current liabilities:			
Accounts payable	24,517	10,905	35,422
Advances from General Fund - Current (Note 6)	25,000	-	25,000
Accrued and other liabilities	1,359	-	1,359
Current portion of long-term debt (Note 7)	61,905	15,972	77,877
Total current liabilities	112,781	26,877	139,658
Noncurrent liabilities:			
Advances from General Fund - Net of current portion (Note 6)	65,521	-	65,521
Long-term debt - Net of current portion	650,647	104,141	754,788
Total liabilities	828,949	131,018	959,967
Net Assets			
Investment in capital assets - Net of related debt	879,411	428,772	1,308,183
Restricted	92,840	-	92,840
Unrestricted	566,802	607,804	1,174,606
Total net assets	<u>\$ 1,539,053</u>	<u>\$ 1,036,576</u>	<u>\$ 2,575,629</u>

Charter Township of Lowell

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2004

	Enterprise		
	Water	Sewer	Total
Operating Revenue			
Sale of water	\$ 289,194	\$ -	\$ 289,194
Sewage disposal charges	-	140,529	140,529
Other charges for services	87,251	11,752	99,003
Total operating revenue	376,445	152,281	528,726
Operating Expenses			
Cost of water produced/purchased	190,655	-	190,655
Cost of sewage treatment	-	89,022	89,022
Billing and administrative costs	27,188	2,399	29,587
Depreciation and amortization	70,200	23,550	93,750
Total operating expenses	288,043	114,971	403,014
Operating Income	88,402	37,310	125,712
Nonoperating Revenue (Expense)			
Investment income	16,582	10,898	27,480
Interest expense	(37,127)	(6,257)	(43,384)
Total nonoperating revenue (expense)	(20,545)	4,641	(15,904)
Change in Net Assets	67,857	41,951	109,808
Net Assets - Beginning of year	1,471,196	994,625	2,465,821
Net Assets - End of year	<u>\$ 1,539,053</u>	<u>\$ 1,036,576</u>	<u>\$ 2,575,629</u>

Charter Township of Lowell

Proprietary Funds Statement of Cash Flows Year Ended March 31, 2004

	Enterprise		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 398,280	\$ 154,045	\$ 552,325
Payments to suppliers	(192,780)	(85,975)	(278,755)
Payments to employees	(39,233)	(2,399)	(41,632)
Net cash provided by operating activities	166,267	65,671	231,938
Cash Flows from Capital and Related Financing Activities -			
Principal and interest paid on capital debt	(82,903)	(22,957)	(105,860)
Cash Flows from Investing Activities			
Interest received on investments	16,582	10,898	27,480
Sale of investment securities	131,780	199,742	331,522
Net cash provided by investing activities	148,362	210,640	359,002
Net Increase in Cash and Cash Equivalents	231,726	253,354	485,080
Cash and Cash Equivalents - Beginning of year	259,131	210,983	470,114
Cash and Cash Equivalents - End of year	<u>\$ 490,857</u>	<u>\$ 464,337</u>	<u>\$ 955,194</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 398,017	\$ 395,578	\$ 793,595
Restricted investments (Note 8)	92,840	68,759	161,599
Total cash and investments	<u>\$ 490,857</u>	<u>\$ 464,337</u>	<u>\$ 955,194</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 88,402	\$ 37,310	\$ 125,712
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	70,200	23,550	93,750
Changes in assets and liabilities:			
Receivables	21,835	1,764	23,599
Accounts payable	(2,125)	3,047	922
Accrued and other liabilities	(12,045)	-	(12,045)
Net cash provided by operating activities	<u>\$ 166,267</u>	<u>\$ 65,671</u>	<u>\$ 231,938</u>

Noncash Investing and Financing Transactions - During 2003, the Township refinanced \$455,000 of their outstanding debt into new bonds.

Charter Township of Lowell

Fiduciary Funds Statement of Assets and Liabilities March 31, 2004

Assets - Cash and cash equivalents (Note 3)	<u><u>\$ 28,666</u></u>
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Liabilities - Accounts payable	<u><u>\$ 28,666</u></u>
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Charter Township of Lowell

Notes to Financial Statements March 31, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Lowell, Michigan (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Lowell, Michigan:

Reporting Entity

The Charter Township of Lowell, Michigan is governed by an elected four-member Board. The accompanying financial statements present the activities of the Township. There are no component units to be included in these financial statements in accordance with accounting principles generally accepted in the United States of America.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability, when applicable.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental fund:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from property taxes, state-shared revenue, and other sources.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following major proprietary funds:

Water and Sewer Funds - The Water and Sewer Funds account for the activities of the water distribution system and the sewage distribution system. These funds are financed primarily by a user charge for the provision of those services.

Additionally, the Township reports the following fund types:

Fiduciary Funds - Fiduciary funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. These include the Trust and Tax Funds. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Nonmajor Governmental Fund - The nonmajor governmental fund consists of the Capital Improvement Fund. This fund is used to account for the development of capital facilities other than those financed by the operations of an Enterprise Fund.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer functions and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of equipment and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 31 of the following year, at which time the taxes will be added to the county tax rolls.

The Township's 2003 tax is levied and collectible on December 1, 2003 and is recognized as revenue in the year ended March 31, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable value of the Township totaled \$128,085,086, on which taxes levied consisted of .8357 mills for operating purposes. This resulted in \$107,041 in operating revenue. This amount is recognized in the respective General Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool, except that Agency Funds investment earnings are allocated to the General Fund.

Charter Township of Lowell

Notes to Financial Statements March 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year would be referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Generally, expenditures are not divided between years by the recording of prepaid expenses.

Restricted Assets - The revenue bonds of the Water and Sewer Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets. Additionally, restricted assets have been recorded for unspent bond proceeds of the Water and Sewer Funds. Accordingly, retained earnings of these funds have not been reserved.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water and sewer lines), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense capitalized as part of the cost of assets under construction.

Capital assets are depreciated using the straight-line method over the following useful lives:

Water and sewer distribution systems	30 years
Land improvements	20 to 40 years
Buildings and building improvements	40 years
Office furnishings	5 to 15 years
Other tools and equipment	20 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. All annual appropriations lapse at fiscal year end.

The annual budget is prepared by the Township's management and adopted by the Township Board; subsequent amendments are approved by the Township Board.

Charter Township of Lowell

Notes to Financial Statements March 31, 2004

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is by revenue source and expenditure function. A comparison of actual results of operations to the General Fund, as adopted by the Township Board, is included in the required supplemental information.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Charter Township of Lowell incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund - Capital outlay	\$95,091	\$157,275

Fund Deficits - The Township has no accumulated fund deficits.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated five banks for the deposit of local unit funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CDs, and the remainder of state statutory authority as listed above.

The Township's deposits and investment policies are in accordance with statutory authority.

Charter Township of Lowell

Notes to Financial Statements March 31, 2004

Note 3 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 250,592	\$ 464,316	\$ 28,666	\$ 743,574
Investments	484,761	329,279	-	814,040
Restricted assets	-	161,599	-	161,599
Total	<u>\$ 735,353</u>	<u>\$ 955,194</u>	<u>\$ 28,666</u>	<u>\$ 1,719,213</u>

The breakdown between deposits and investments for the Township is as follows:

	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 1,490,246
Investments in securities, mutual funds, and similar vehicles	<u>228,967</u>
Total	<u>\$ 1,719,213</u>

Deposits

The bank balance of the Township's deposits is approximately \$1,495,000, of which approximately \$616,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of the cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

Investments are categorized into these three categories of credit risk:

Category I - Insured or registered, with securities held by the Township or its agent in the Township's name;

Charter Township of Lowell

Notes to Financial Statements March 31, 2004

Note 3 - Deposits and Investments (Continued)

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Township's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

At year end, the Township's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government - Corporate bonds	<u>\$ -</u>	<u>\$ 115,621</u>	<u>\$ -</u>	\$ 115,621
Investments not subject to categorization - Interlocal agreement investment pool funds				<u>113,346</u>
Total primary government				<u>\$ 228,967</u>

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The interlocal agreement investment pool is not categorized because it is not evidenced by a security that exists in physical or book entry form. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pool is the same as the value of the pool shares.

Charter Township of Lowell

Notes to Financial Statements March 31, 2004

Note 4 - Receivables

Receivables as of year end for the Township's individual major funds and the nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Water Fund	Sewer Fund	Total
Receivables:				
Taxes	\$ -	\$ 229,121	\$ 128,873	\$ 357,994
Accounts	-	56,061	25,499	81,560
Intergovernmental	71,919	-	-	71,919
Less allowance for uncollectibles	-	-	-	-
Net receivables	<u>\$ 71,919</u>	<u>\$ 285,182</u>	<u>\$ 154,372</u>	<u>\$ 511,473</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, there was no deferred revenue.

Charter Township of Lowell

Notes to Financial Statements March 31, 2004

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance April 1, 2003	Additions	Disposals and Adjustments	Balance March 31, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 155,596	\$ -	\$ -	155,596
Construction in progress	416,587	-	(416,587)	-
Subtotal	572,183	-	(416,587)	155,596
Capital assets being depreciated:				
Land improvements	302,474	327,280	-	629,754
Buildings and improvements	733,514	219,683	-	953,197
Office furnishings and equipment	114,722	999	-	115,721
Other tools and equipment	16,330	25,900	-	42,230
Subtotal	1,167,040	573,862	-	1,740,902
Accumulated depreciation:				
Land improvements	50,786	15,148	-	65,934
Buildings and improvements	160,192	22,435	-	182,627
Office furnishings and equipment	100,845	4,217	-	105,062
Other tools and equipment	2,016	1,571	-	3,587
Subtotal	313,839	43,371	-	357,210
Net capital assets being depreciated	853,201	530,491	-	1,383,692
Net capital assets	<u>\$ 1,425,384</u>	<u>\$ 530,491</u>	<u>\$ (416,587)</u>	<u>\$ 1,539,288</u>

Charter Township of Lowell

Notes to Financial Statements March 31, 2004

Note 5 - Capital Assets (Continued)

	Balance April 1, 2003	Additions	Disposals and Adjustments	Balance March 31, 2004
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 36,158	\$ -	\$ -	\$ 36,158
Construction in progress	117,000	-	(117,000)	-
Subtotal	153,158	-	(117,000)	36,158
Capital assets being depreciated -				
Water and sewer distribution systems	2,631,796	117,000	-	2,748,796
Accumulated depreciation - Water and sewer distribution systems	552,479	91,627	-	644,106
Net capital assets being depreciated	2,079,317	25,373	-	2,104,690
Net capital assets	<u>\$ 2,232,475</u>	<u>\$ 25,373</u>	<u>\$ (117,000)</u>	<u>\$ 2,140,848</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:		
General government		\$ 22,824
Recreation and culture		20,547
Total governmental activities		<u>\$ 43,371</u>
Business-type activities:		
Water		\$ 68,785
Sewer		22,842
Total business-type activities		<u>\$ 91,627</u>

As of March 31, 2004, the Township had \$43,020 in unamortized intangible assets. The entire balance relates to an investment in a fire truck with the City of Lowell. Amortization expense of \$2,390 was recognized in governmental activities. Additionally, amortization expense of \$2,123 was recognized in the business-type activities related to bond issuance costs.

Construction Commitments - The Township does not have active construction projects at year end.

Charter Township of Lowell

Notes to Financial Statements March 31, 2004

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Advances to/from Other Funds		
General Fund	Water Fund	\$ 90,521

This balance relates to a loan taken out by the Water Fund from the General Fund when the Water Fund was formed. The loan was taken out to build a water tower. Annual payments of \$25,000 are being made. Interest is accumulated on the loan at a rate of 7 percent.

Note 7 - Long-term Debt

Included in the business-type activities are special assessment bonds that were issued during fiscal year 2002. The bonds, totaling \$449,000, were issued to offset infrastructure expenditures related to a significant capital project.

Also included in the business-type activities are water supply system bonds. In connection with this bond issue, the Township has agreed to certain covenants, including the creation of liens, bond reserve, maintenance of the water system and accounting records in accordance with state and federal laws, and maintenance of insurance on all physical properties of the water system. These bonds were refinanced in the current year as disclosed below.

Total interest incurred for the Township for the year approximated \$43,000.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities					
Revenue bonds:					
1994 Water Supply System Bonds, refinanced in 2004, with interest of 5.9%	\$ 485,000	\$ -	\$ (455,000)	\$ 30,000	\$ 30,000
2004 Water Supply System Bonds, maturing through 2015, with interest ranging from 2% to 4% (shown net of bond issuance costs)	-	442,524	-	442,524	-
Special assessment bonds - 2002 Limited Tax Bonds, maturing through 2012, with interest ranging from 4% to 6% (shown net of bond issuance costs)	408,019	-	(47,877)	360,142	47,877
Total long-term-debt	<u>\$ 893,019</u>	<u>\$ 442,524</u>	<u>\$ (502,877)</u>	<u>\$ 832,666</u>	<u>\$ 77,877</u>

Charter Township of Lowell

Notes to Financial Statements March 31, 2004

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bonds is as follows:

	Business-type Activities		
	Proceeds	Interest	Total
2005	\$ 77,877	\$ 26,943	\$ 104,820
2006	80,130	27,972	108,102
2007	90,130	25,172	115,302
2008	80,131	22,273	102,404
2009	85,131	19,415	104,546
2010-2014	367,004	22,295	389,299
2015-2019	52,263	25,726	77,989
Total	<u>\$ 832,666</u>	<u>\$ 169,796</u>	<u>\$ 1,002,462</u>

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Business-type Activities
Unspent bond proceeds and related interest	\$ 114,599
Bond reserve	<u>47,000</u>
Total restricted assets	<u>\$ 161,599</u>

During the current year, the water supply system bonds were refinanced. A qualifying statement was submitted to the Michigan Department of Treasury. The Township was found to be in compliance with the criteria identified. The new bonds were issued at \$442,524, net of bond issuance costs of \$27,476. Interest rates on the new bonds range from 2 percent to 4 percent. All of the 1994 water supply system bonds were redeemed except for the one maturing at \$30,000, due in 2005.

Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts, and errors and omissions claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Township has not purchased commercial insurance for coverage of health claims for employees. In lieu of this, employees receive a cash benefit.

Note 10 - Defined Contribution Program

The Township provides retirement benefits to all of its elected officials through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after three months of employment, as long as a minimum of 16 hours a week is worked. The plan is established by Internal Revenue Service Code Section 414(c)(2). Participants and the Township are required to contribute 5 percent and 10 percent, respectively, of each participant's gross wages. In addition, the Township may make discretionary contributions. Discretionary contributions were not made in the current year. The contributions and investment interest allocated to the employee's account are fully vested immediately.

The Township's total payroll during the current year was \$220,600. The current year contribution was calculated based on covered payroll of \$189,310, resulting in an employer contribution of \$18,931 and employee contributions of \$15,072.

Charter Township of Lowell

Notes to Financial Statements March 31, 2004

Note 11 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Charter Township of Lowell has applied the provisions of this statement in the accompanying financial statements, except for the management's discussion and analysis, but has included the notes to the financial statements. The Township has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- Financial statements prepared using full accrual accounting for all of the Township's activities
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets not previously accounted for by the Township, as well as assets totaling approximately \$1,539,000 that would previously have been reported in the General Fixed Assets Account Group

In connection with the implementation of GASB Statement No. 34, the following adjustments have been made to reflect the cumulative effect of this accounting change in the governmental funds:

Net Assets - Beginning of year - As previously reported - Governmental fund types (General and Capital Project Funds)	\$ 833,752 *
Capitalization of other capital assets - Net of accumulated depreciation	1,425,384
Investment in intangible assets - Net of accumulated amortization	<u>13,544</u>
Net Assets - Beginning of year - As restated	<u>\$ 2,272,680</u>

* Amount includes net assets relating to one additional fund not previously reported in the General Fund: Cemetery in the amount of \$67,853.

Required Supplemental Information

Charter Township of Lowell

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 102,000	\$ 112,000	\$ 112,433	\$ 433
State sources	400,000	400,000	403,378	3,378
Local sources	-	-	16,800	16,800
Licenses and permits	22,800	22,800	24,058	1,258
Interest income	27,300	27,300	31,049	3,749
Cemeteries	2,500	2,500	1,100	(1,400)
Cable TV	12,400	12,400	15,147	2,747
Miscellaneous	97,591	97,591	112,709	15,118
Total revenue	664,591	674,591	716,674	42,083
Expenditures				
General government:				
Trustees	6,640	6,640	5,622	1,018
Supervisor	18,816	18,816	18,816	-
Assessing	101,636	101,636	99,841	1,795
Attorney/Engineer	15,000	15,000	26,885	(11,885)
Clerk	18,816	18,816	18,816	-
Deputy clerk	16,250	16,250	14,125	2,125
Deputy treasurer	15,080	15,080	3,630	11,450
Auditor	9,000	9,000	8,525	475
Board of Review	1,200	1,200	2,150	(950)
Treasurer	18,816	18,816	18,816	-
Operating	86,224	86,224	97,472	(11,248)
Computer	5,000	5,000	5,655	(655)
Pension plan	23,409	23,409	16,524	6,885
Insurance and bonds	22,500	22,500	20,674	1,826
Social Security	14,000	14,000	15,649	(1,649)
Total general government	372,387	372,387	373,200	(813)
Public safety:				
Rescue and ambulance	22,000	22,000	21,206	794
Fire protection	75,000	75,000	60,099	14,901
Total public safety	97,000	97,000	81,305	15,695
Public works:				
Gypsy moth	7,000	7,000	10,978	(3,978)
Roads	30,000	30,000	8,086	21,914
Street lights	8,300	8,300	8,040	260
Water project	10,000	10,000	10,000	-
Planning/Zoning	10,000	10,000	11,901	(1,901)
Total public works	65,300	65,300	49,005	16,295

Charter Township of Lowell

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended March 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Legislative - Elections	\$ 500	\$ 500	\$ 94	\$ 406
Recreation and culture:				
Cemetery	5,000	5,000	5,849	(849)
Park maintenance	29,313	39,313	22,277	17,036
Total recreation and culture	34,313	44,313	28,126	16,187
Capital outlay	95,091	95,091	157,275	(62,184)
Total expenditures	664,591	674,591	689,005	(14,414)
Excess of Revenue Over Expenditures	-	-	27,669	27,669
Fund Balance - Beginning of year	791,994	791,994	791,994	-
Fund Balance - End of year	<u>\$ 791,994</u>	<u>\$ 791,994</u>	<u>\$ 819,663</u>	<u>\$ 27,669</u>

Note: The General Fund Budget was adopted on the basis of revenue source and expenditure function. The amounts shown above are in greater detail than the budget adopted by the Township Board and are shown for management analysis only.

May 18, 2004

Members of the Township Board
Charter Township of Lowell
2910 Alden Nash SE
Lowell, MI 49331

Dear Board Members:

We have recently completed our audit of the financial statements for the Charter Township of Lowell for the year ended March 31, 2004 and have issued our report thereon dated May 18, 2004. As a result of our audit, we offer the following observations and comments for your consideration:

SPECIFIC TOWNSHIP-RELATED MATTERS

GASB 34 - NEW FINANCIAL STATEMENT FORMAT

Over the last several years, we have discussed the pending implementation of Governmental Accounting Standards Board (GASB) 34 with the Township. This new accounting standard was adopted this year. It significantly impacts the format of the Township's financial statements. The expected benefits of the new model include improved comparability of financial statements between communities, and a better matching of the current year's revenue sources to the full cost of services provided during that year. The information that was previously provided in your financial statements has been retained in the new financial statement format, however, in a slightly different presentation. In addition, the following major items have been added:

- Entity-wide financial statements (balance sheet and operating statement) prepared on a full accrual basis. There are two columns, one for governmental activities and one for enterprise activities.
- Capital assets and their related depreciation are now reported in your governmental activities.

Please take some time reviewing these new statements. We would be happy to answer any question you may have.

ACCOUNT RECONCILIATIONS

- During the course of our audit, we noted several improvements that could be made in order to better reconcile the general ledger cash balances to statements received from the financial institutions.
- Account reconciliations for the Edward Jones investment account should be done on a monthly basis.

- While the staff has done a good job of doing bank reconciliations of the checking and LUG accounts in a timely manner, there should also be a formal review process put into place where someone independent of its preparation verifies the accuracy.
- The Township is currently operating three computer systems into which cash receipts are entered. While the Township staff have become effective at reconciling the three separate systems, it would be more efficient to streamline the process by using separate modules of one system.
- While past issues with major water and sewer cash receipts being recorded incorrectly have been corrected during the current year, there are still issues with recording other minor cash receipts into the wrong accounts.

ACCOUNTS PAYABLE

During our audit testing of the cash disbursements and accounts payable areas, we noted that the Township process for entering invoices into the general ledger system is not on the full accrual basis. As part of the data entry process, the invoices are entered when paid and, as a result, the accounts payable account does not reflect an accurate balance of outstanding invoices at any given time.

In order to test accounts payable in the current year, the Township was asked to identify all unpaid invoices relating to fiscal year 2004. From the list generated, Plante & Moran recorded the accounts payable for the Township. While performing our testing, several items were noted as inappropriately included or excluded from the identified invoices. Although the Township was asked to review the list a second time, resulting in no errors being found, these omissions required us to spend additional time testing in the accounts payable area. This could have been avoided if an accurate listing was provided at the beginning of the engagement.

ACH TRANSACTIONS

Electronic payments of public funds are required for some federally mandated transactions of public funds, and electronic payments have become a commonly accepted practice by banks and other financial institutions. Public Act 738 of 2002, effective December 30, 2002, authorizes townships to make electronic transactions involving public funds by electronic payment, debit, or credit transfer processed through an automated clearing house. PA 738 authorizes a township treasurer to enter into an ACH arrangement for a national and governmental organization that has authority to process electronic payments (ACH), including, but not limited to, the national automated clearing house association and the federal reserve system.

The Township has only had a few ACH transfers in the last few years, but they do occur. The Township should develop a control system and resolution in regard to these electronic transactions as technology continues to evolve and ACH transfers become more common.

CABLE FRANCHISE REVENUE

Cable TV franchise revenues of municipalities have steadily increased. As the population continues to grow, so will franchise revenues. We recommend that the Board Council review the Township's cable franchise agreement and consider the following items during this review:

- Performance of a compliance review of the cable agreement related to franchise fees to ensure the Township is receiving the proper amount of revenue based on the number of cable subscribers and the growth of cable in the community.
- Comparison with neighboring communities to determine what they are receiving from cable providers as compensation for allowing the cable company to use local thoroughfares/public right-of-ways for the distribution of cable services. The Township may discover that additional benefits such as operating grants, capital equipment, and in-kind contributions may be available.
- Consider combining efforts with other communities to negotiate franchise agreement renewals.

INVESTMENT VEHICLES

The efforts that the Township has made to maximize interest earnings on idle cash have been beneficial. In addition to the typical investment avenues that you have used, we would like to familiarize you with alternative methods that you may consider for your future investments.

Currently, the Township invests predominately in certificates of deposit and pooled investment funds. Typically, the maturity on these investments is for a relatively short period of time and many of the certificates of deposit are for a couple of thousand dollars a piece. When the Township's certificates of deposit mature, they are automatically rolled into another certificate of deposit for the same amount at the current rate being offered. The Township should consider investing in other investment instruments allowable, as defined by state regulations, that earn more attractive rates of return while maintaining approximately the same degree of investment risk. Because of its excellent cash/investment position, the Township should also consider investments with a longer maturity that could also increase investment yields.

Since there is generally, but not always, a correlation between investment yields and their degree of risk, the Township may more clearly define the level of risk that it believes to be appropriately acceptable through its election of investment vehicles. As a cautionary note, we would like to point out the need to consider the relative importance of arrangements regarding taking physical possession of securities and agreements related to safekeeping accounts and the policy regarding registration of securities in the Township's name depending on the particular investment medium selected. We would be happy to discuss these opportunities in more detail at your convenience.

INDUSTRY-RELATED MATTERS

STATE SHARED REVENUE

Municipalities in Michigan have and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounted for approximately 53% of the Township's total General Fund revenue for the calendar year ended March 31, 2004. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

The following depicts the Township's actual and estimated revenue sharing payments over a five year period - from the State's fiscal year ending September 30, 2001 through the fiscal year ending September 30, 2005.

	<u>Actual FY 2001</u>	<u>Actual FY 2002</u>	<u>Actual FY 2003</u>	<u>Estimated FY 2004</u>	<u>Estimated FY 2005</u>
Constitutional	\$ 338,673	\$ 342,122	\$ 347,915	\$ 345,024	\$ 358,816
Statutory	51,192	68,216	57,225	19,582	3,134
Total payments	<u>\$ 389,865</u>	<u>\$ 410,338</u>	<u>\$ 405,140</u>	<u>\$ 364,606</u>	<u>\$ 361,950</u>
Dollar change		\$ 20,473	\$ (5,198)	\$ (40,534)	\$ (2,656)
Percentage change		5.25%	-1.27%	-10.00%	-0.73%

Overall, while the Township's constitutional revenue sharing payments have been increasing slightly each year due to the growth of the Township, the statutory piece of revenue sharing has dropped almost \$32,000 since 2001. For the State's fiscal year 04/05, the Governor has proposed to hold the line on revenue sharing – meaning that FY 04/05 levels will equal FY 03/04 levels – but only for cities, villages and townships. As you can see, the proposed revenue sharing for Lowell Township for the State's fiscal year ending September 30, 2005 is \$361,950 which represents a reduction of approximately \$2,700 from the estimated amount for the State's fiscal year ending September 30, 2004.

Although sales tax revenue would support an increase to state shared revenue payments, the State's budget situation remains troublesome at best. It is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the Township to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

PERFORMANCE AUDITS BY THE STATE OF MICHIGAN

The State of Michigan has done a performance audit on the Bureau of Local Government Services. The Bureau of Local Government provides various services to local units of government through its four divisions: the Local Audit and Finance Division, the Property Tax Division, the Assessor Certification Division, and the Local Property Services Division. As a result, an extensive report has been issued on their findings. Among their findings are the following:

- Industrial Facilities Taxes (IFTs) are not being calculated properly, are not remitted timely and, in some cases, are not sent to the appropriate taxing authority.
- Trailer taxes are not being collected and/or are not remitted to the State appropriately. (\$2 of the \$3 dollars the municipalities collect should go to the State Treasurer for credit to the School Aid Fund).
- Special taxes (those payments in lieu of tax for things like iron ore mining property, land designated as commercial forest or private forest, housing projects under the State Housing Development Authority Act) are not being collected and/or are not remitted to the State appropriately.
- The Local Audit and Finance Division has not been appropriately ensuring that all local units of government are being audited and, if so, are not ensuring that the audit reports are submitted timely.

- The Local Audit and Finance Division has not completed sufficient performance audits to establish accountability over State transportation funds (Act 51 dollars).

The impact of this report may trickle down to the local units of government. For the items relating to the collection and remittance of taxes, please review the appropriateness of your procedures and be aware that the State will be examining transactions more closely in the future.

MUNICIPAL FINANCE ACT REVISIONS – REMINDER

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the Township's year end (which means for Lowell Township that filing is due September 30, 2004) and is good for one year thereafter.

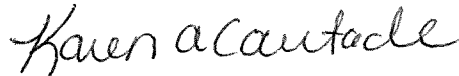
We would like to thank the Township personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Robert J. Brazda



Karen A. Courtade